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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

9 June 1982

National Intelligence Council

MEMORANDUM FOR: James L. Buckley, State
Wiliam Milam, State
Marc E. Leland, Treasury
Robert Cornell, Treasury

FROM: Maurice C. Ernst
National Intelligence Officer for Economics

SUBJECT: Monitoring Credits to the USSR and Eastern Europe

1. Assuming that the G-7 agrees to exchange detailed information on credits to the USSR and Eastern Europe on at least a semiannual basis, some general criteria will be needed for the purpose of the "ex-post review" called for in the communique of the Economic Summit.

2. I do not believe our allies will agree to any formal quantitative formula for limiting credits to the USSR, or the Soviet Bloc. Were they to agree to such a formula, they would insist on major loopholes, so as to be able to accommodate major projects involving broader national interests, such as the Yamal pipeline. Moreover, the French and others will insist on reviewing all aspects of the financial situation, including short-term as well as longer term private non-guaranteed credits, the evolution of exports not normally financed by credits (for example, grain), and other complicating issues. Even within this broad and vague framework, however, it may be possible to develop a system which forces each country to show how its government supported credits affect the Soviet and East European debt situation.

3. It would be necessary for each country to provide every six months not only up-to-date data on Soviet and East European debt to that country, but also projections of how existing credits and other financial agreements (like reschedulings) will affect debt in the next few years (probably, the next five years). This procedure would make it possible not only to describe the amounts and terms of each new government-guaranteed credit, but also to assess the impact of these credits on debt. Although the procedure would not yield realistic estimates of future debt because it would cover only credit agreements already signed, it would reveal some likely trends in debt, and thereby provide a handle to ask pointed questions about the credit policies of individual countries. For example, if the projected Soviet debt to France had been raised for two six-month

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periods, the French would have to explain whether this reflected the bunching of some large projects or a long term upward trend. If the bunching explanation were correct, projected debt would decline in subsequent biannual reviews.

4. The use of a projected debt criterion is a convenient form of a net capital flow criterion. It is far superior to focusing on credit extensions alone because these are exceedingly erratic.

5. In addition to country submissions and estimates on actual and projected debt, the review group would have to estimate and project the overall Soviet hard currency debt position. We could do this in CIA, and other countries could be encouraged to provide their own estimates. A common estimate is not essential, but exchanges of views in advance of the review meetings to avoid misunderstandings would be very useful. The overall debt estimates should cover all forms of hard currency debt including private non-guaranteed and short-term.

Maurice C. Ernst

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